

EX PARTE OR LATE FILED

RECEIVED

DEC - 1 1994

MOIR & HARDMAN

ATTORNEYS AT LAW

BRIAN R. MOIR

2000 L STREET, N.W., SUITE 512

WASHINGTON, D.C. 20036-4907

DIRECT DIAL: (202) 331-9852

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

FAX: 202-331-9854

DOCKET FILE COPY ORIGINAL

December 1, 1994


Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W. -- Room 222
Washington, D.C. 20554

RE: Ex Parte Meeting on CC Docket 94-1

Dear Mr. Caton;

Today, representatives of the International Communications Association (ICA), Page Montgomery (Montgomery Consulting) and myself, met with Richard Welch (Legal Advisor to Commissioner Chong). The discussion covered points already made on the record in ICA pleadings for this proceeding and in the following enclosures.

Sincerely,



Brian R. Moir
Counsel for ICA

cc: Richard Welch
Page Montgomery

No. of Copies rec'd
List ABCDE

045

RECEIVED

DEC - 1 1994

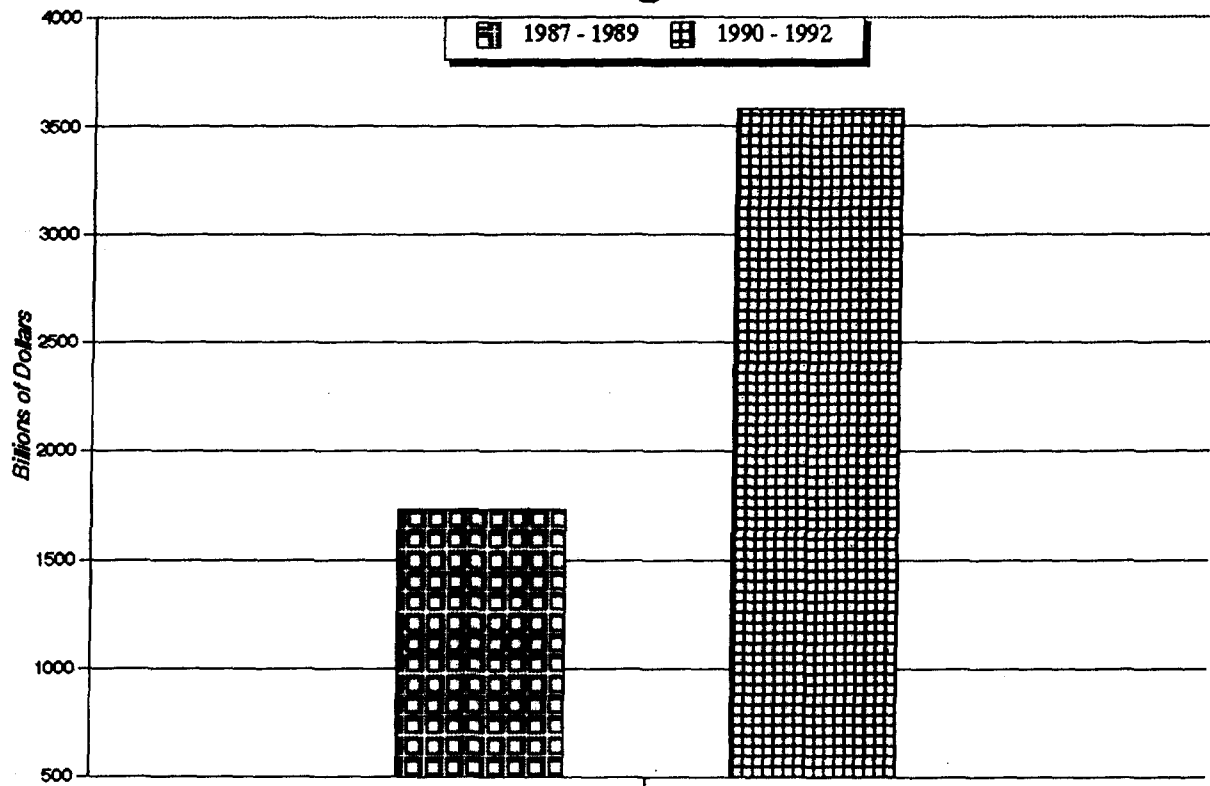
1994 PRICE CAP REVIEW

EARNINGS, INVESTMENT, AND PRICE CAPS

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

- **The FCC intended price caps to be an improved form of tariff review, not an all-encompassing regulatory system**
 - **Price caps are supposed to better reflect competitive markets**
 - **But earnings, cash flow and financial results are used as critical measures of all competitive firms, on Wall Street and elsewhere**
 - **Price cap LECs want FCC to abandon these measurements despite their monopoly position**
- **LEC earnings remain at historically high levels despite LEC claims to contrary**
- **Overall net outflow from Bell regulated operations to non regulated operations has increased**
 - **1987-89: \$1.733-billion**
 - **During incentive regulation period, 1990 to 1992: \$3.579-billion**
- **Regulatory-approved increases in cash flow that are not reinvested in the telephone network are gone for good**
- **Most studies of incentive regulation have found that LECs do not increase overall levels of investment in the regulated network**

RBOC Non-Regulated Investments In Excess of Non-Regulated Cash Flow



- **Spiller's study for Ameritech explicitly disclaims any application to the FCC price cap plan for LECs:**
 - **"identifying the impact of the FCC's price cap regime is almost impossible." Ameritech paper, p. 25.**
- **Spiller's paper never explicitly reveals which state plans were "pure" price caps allegedly having positive effects on investment**
- **Accuracy of Spiller's two stage least squares statistical analysis depends upon size of the data set being used**
 - **The Ameritech paper's data on fiber optic deployment spanned only five years**
 - **Its data on the other types of digital infrastructure covered only two years**